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Abolition of the furnished holiday lettings tax regime

Thank you for your letter to the Director General Jonathan Athow regarding the announcement of the abolition of the furnished holiday lettings (FHL) rules. I am replying on his behalf.

We agree with you that certainty and clarity are important here, but we take a different view on the best approach to achieving that.

While there is no statutory definition of 'trade' the courts have provided guidance on the borderline between trade and property income with a focus on the underlying source of income. Accordingly, whether an activity constitutes trading or property letting will continue to be determined on the facts.

The suggestion by the Office for Tax Simplification (OTS) for a brightline test would have some downsides. For example, it could create potential preferential tax treatment for those able to afford to buy more properties, as opposed to considering whether the overall nature of the activity constitutes trading or property letting on its merits. The OTS suggestions could also potentially mean more activities would be considered trades. As a result, the Government decided not to take that suggestion forward, but keeps all aspects of tax policy under review.

For inheritance tax purposes the distinction is between investment and non-investment activity. HMRC's view is that furnished holiday lets will in general not qualify for business property relief. The income derived from such businesses will largely consist of rent in return for the occupation of property. This is set out in our published guidance (IHTM25278). I do not anticipate that the repeal of the FHL rules will impact the application of business property relief and the use of a brightline test would pose similar drawbacks as highlighted above.

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The details of how the transition from furnished holiday lettings will operate will be set out in draft legislation and accompanying documentation to be published soon.

Our aim is to make the transition provisions as simple as possible for customers, and I will welcome any comments you might have. In the meantime, I am happy to hear about any further concerns you may have.

Yours sincerely

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